



## Biotech Exit Strategies

Delivering Value to Investors in a  
Challenging Funding Market

For more information,  
please call Maureen Croce at 866/464-2776  
Fax: 781/639-0529  
email: [mcroce@hcpro.com](mailto:mcroce@hcpro.com)

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## Report Overview

Biotechnology ventures involve costly research and development and a 10-20 year delay in generating product revenues. The high risk nature of early stage biotech research is primarily funded through venture capital, with high risks resulting in potentially high rewards. While the biotech venture model has remained relatively unchanged over the past 30 years, the exit strategies employed by companies and venture capitalists have adapted to the market conditions prevailing over time.

There are three primary biotech exit strategies. The traditional route has been to fund a biotech venture through to a successful public floatation (IPO). However, as IPO markets have become more challenging, a second key route has emerged whereby early-to-mid-stage biotech ventures are being acquired by or merged with bigger pharmaceutical and biotechnology companies looking to secure new technologies and pipeline prospects. Alongside these two major exit strategies sits the alliance and licensing model which effectively provides a partial exit strategy for companies and venture capitalists, often involving a dilution of risks and the bringing forward of potential returns.

**Pages** 104

**Figures** 18

**Tables** 18

*"The report provides a unique strategic analysis for successfully dealing with the prevailing challenging financial conditions facing biotech companies and investors"*

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Fax: 781/639-0529  
email: mcroce@hcpro.com

## Key Findings



**Establishing the most effective route to exit for a biotech venture** is critical in ensuring value is maximized for key stakeholders and the associated technology. However, more critical than selection of exit strategy is the planning and effective execution of exit.



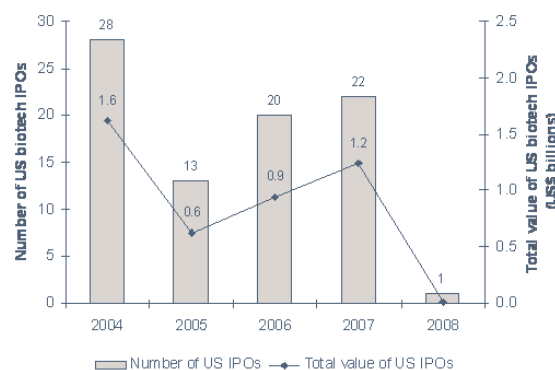
**Total private and public funding for biotech companies fell by 59.1% in 2008** to a five year low of US\$10.8 billion. Public companies were hardest hit, as a result of public funding markets contracting in the wake of the credit crunch and global financial crisis in the second half of 2008.



**A total of 15 biotech IPOs raised more than US\$100 million between 2004 and 2008.** The last major biotech IPO was the floatation of nanotechnology diagnostics company Nanosphere, which raised US\$112.7 million in October 2007.



**Several recent biotech M&A deals have resulted from partnerships established through long-term strategic alliances.** In 2008, Novartis' US\$880 million acquisition of Speedel, Sanofi-Aventis' US\$553 million acquisition of Acambis, Ipsen's US\$441 million acquisition of Tercica and Teva's US\$360 million acquisition of Bentley all followed earlier alliances between the two parties.



**Figure 2.10: Number and value (US\$bn) of US biotech IPOs, 2004-08**

"The number and total value of biotech IPOs in the US increased steadily between 2005 and 2007 before falling to just one IPO in 2008 for a total value of US\$5.8 million."

## Use this report to...

- **Gain a full understanding** of recent biotech funding and exit trends, including IPOs, M&As and licensing and alliances, and their impact on biotech company valuations and investor returns.
- **Add future forecasts** for funding conditions and exit conditions to the strategic planning process.
- **Reference and benchmark** 15 in-depth case studies outlining best practices and key learnings from recent biotech exit activity.
- **Compare and contrast** the key benefits and challenges associated with different routes to biotech exit.
- **Audit current planning milestones** and create a checklist of critical success factors associated with the three different routes to biotech exit
- **Implement a detailed framework** for biotech planning, combining the funding lifecycle with exit valuations and interim clinical, commercial and financial parameters

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## Key issues...



**IPO market is closed.** Report identifies trends and proposes alternatives to an immediate IPO.



**Reverse mergers.** Report outlines a new trend in reverse mergers that provide an alternative route to public listing when IPO markets are closed



**M&A instead of IPO.** Report highlights the rise of the M&A exit, and confirms its importance in the down cycle for biotech IPOs.



**Alliance buy-outs.** The report details the delicate balance in pursuing alliances aimed at an eventual partner buy-out exit without limiting M&A exit opportunities with third parties.



**Path to exit.** The report provides a framework for planning a biotech investor exit and details the valuation objectives, milestone parameters and eventual funding to exit lifecycle.

	Enterprise - level valuation	Asset - level valuation
Clinical parameters	<ul style="list-style-type: none"> <li>Validation of key product</li> <li>Validation of portfolio</li> <li>Clinical trial capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Validation of key product</li> <li>Validation of portfolio</li> <li>Clinical trial capabilities</li> </ul>
Commercial parameters	<ul style="list-style-type: none"> <li>Commercial plan for key product</li> <li>Commercial plan for portfolio</li> <li>Commercial capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Commercial plan for key product</li> <li>Commercial plan for portfolio</li> <li>Partnering capabilities</li> </ul>
Financial parameters	<ul style="list-style-type: none"> <li>Financial track record</li> <li>Retained future commercial rights</li> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Financial track record</li> <li>Retained future commercial rights</li> <li>Risk management</li> </ul>

**Fig 6.18: Setting biotech exit parameters**

“The importance of certain biotech exit parameters differ depending on whether a biotech company is seeking to maximize enterprise-level or asset-level value.”

## Discover...

- What are the alternative routes to biotech investor exit and how do these approaches impact on the funding lifecycle?
- How do the current challenging funding conditions impact on biotech exit alternatives?
- What are the likely future trends in biotech funding and exit opportunities?
- With a closed IPO market, how can biotech companies realize a investor exit event?
- How do licensing and alliance agreements impact on likely future exit opportunities and their valuations?
- What are the differences between an enterprise-level and asset-level valuation, and when is each appropriate to planning an exit?
- Which clinical, commercial and financial parameters best track biotech progress towards a successful exit?

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 Fax: 781/639-0529  
 email: mcroce@hcpro.com

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